

## **Around Town with the Town Manager #7**

This is the final in a series of three columns on Tax Incremental Financing, known and referred to as a TIF. This column is devoted exclusively to questions about the financing or paying for the infrastructure improvements to Severance Corners, of course, with your approval as voters. The ball is in your hands – if you have a question about these answers or others please ask them. So with another cup of strong coffee let's try to answer the below questions:

### ***How do we pay for these infrastructure improvements?***

- The Town of Colchester seeks to establish a Tax Increment Financing (TIF) District within its State Designated Growth Center – Severance Corners in order to provide revenues for necessary public improvements to stimulate the development at Severance Corners.

### ***What is a Tax Increment Financing (TIF) District?***

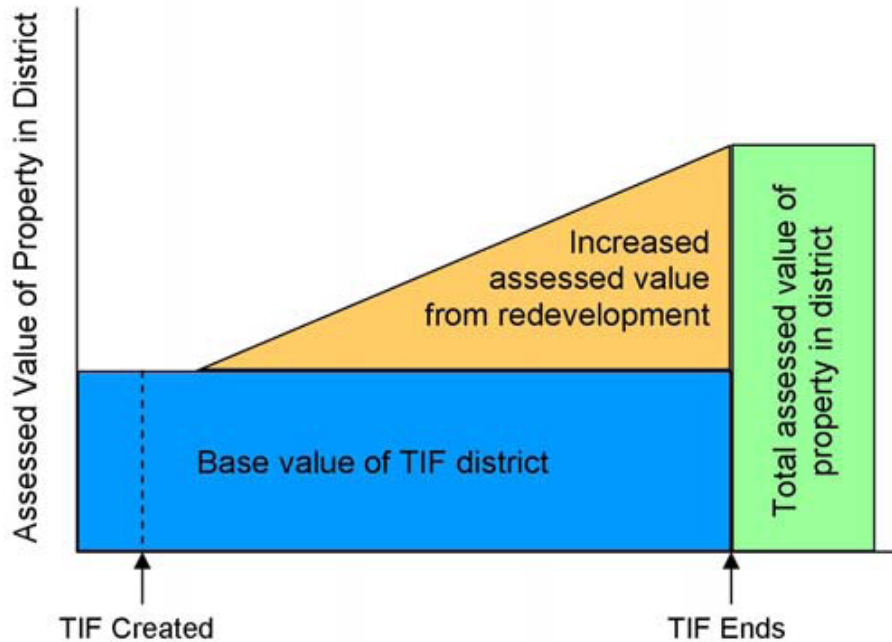
- A TIF District is a local financing tool used to provide revenues beyond normal municipal revenue sources for infrastructure improvements that serve a defined municipal district which will stimulate development or redevelopment within the District, provide for employment opportunities, improve and broaden the tax base, and enhance the general economic vitality of the municipality, the region, or the state (*See 24 VSA §1893*).
- TIFs allow municipalities to finance public infrastructure improvements that support private development, by earmarking future property tax revenues generated within a designated district to finance those improvements.

### ***Why use a TIF?***

- TIFs are popular because it is an effective self-financing economic development tool (it utilizes locally-generated revenues), and a proven land use development tool (it allows municipalities to target specific areas for development or revitalization).

### ***How does it work?***

- As development occurs in the District, total property value increases (the yellow triangle, below). The property tax revenues generated by that new development is the “tax increment,” which is used to pay the debt service on the public improvements.
- Both the municipal *and* education property tax increments are available to service TIF debt – thus, the use of TIF as an economic development tool creates significant new revenues for the Town to fund public infrastructure.
- When the District ends (usually twenty years), all property taxes are once again collected by the Town and State education fund, just like before but now there is a significantly higher total property value (see the green box below.)



(Courtesy of Burlington, VT CEDO Office, 2010)

### ***What are the risks?***

- Sometimes incremental tax revenues do not fully cover debt payments early in the life of a TIF District because there is a lag between when the public improvements are made and when the private development occurs.
- The municipality shall remain liable for full payment of the principal and interest for the term of indebtedness. This means the Colchester taxpayers are on the hook if the TIF District does not generate enough revenues to pay down the bonds.

### ***How are we managing the risks?***

- The Town has calculated that revenues will cover debt payments both on an annual basis and cumulatively through the 20 years of the life of the TIF District.
- However, to insure the Colchester taxpayers against severe economic downturns or an unforeseen change in the development schedule, the Town of Colchester is working closely with the developers on a plan of action to provide funding in order to protect the municipality from burdening the taxpayers should it occur. Several options are being discussed and will be agreed upon well before the required bond vote.

### **Proposed Timeline**

- 6/22 Working meeting with the Select Board
- 7/13 First Public Hearing on the creation of TIF District and TIF Plan

- 7/27 Second Public Hearing and Select Board Vote on creation of TIF District and approval of TIF Plan
- Submit to VEPC by 8/5 for their meeting on 8/26.
- If approved, prepare Final TIF Financing Plan for VT Economic Progress Council (VEPC) and decide when to hold Town wide Bond Vote.

That's all the questions we have so far. If we receive more we will answer them in another column and also directly back to the questioner. Baring a lot more questions, next week I will answer a citizen's question about the history and status of building a new police facility. In the interim have a good week.

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